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JAN 29 1997

Federal Communications Commission
Office of Secretary

January 29, 1997

Via Facsimile and Federal Express

William F. Caton, Acting Secretary
Office of the Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Opening Comments on December 24, 1996, Notice of Proposed Rulemaking on Access Charge Issues
CC Docket No. 96-262
Our File No. 8323-6801-1

Dear Mr. Caton:

Enclosed for filing please find an original and 12 copies of the opening comments of a group of Small Western LECs in response to the December 24, 1996, Notice of Proposed Rulemaking on Access Charge Issues in the captioned docket.

Copies of this document are being mailed as directed by the FCC to the Competitive Pricing Division. Copies are also being sent to each Commissioner.

Due to the circumstance of our office being located in San Francisco, we are delivering a facsimile copy of this filing today. The original signed copy and a diskette copy in DOS PC compatible format will be delivered by overnight express for inclusion in the formal file of the proceeding.

Sincerely,

BECK & ACKERMAN

Jeffrey F. Beck

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Enclosures

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Federal Communications Commission
Office of Secretary

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213

OPENING COMMENTS

OF

EVANS TELEPHONE COMPANY
HUMBOLDT TELEPHONE COMPANY
KERMAN TELEPHONE CO.
OREGON-IDAHO UTILITIES, INC.
PINNACLES TELEPHONE CO.
THE PONDEROSA TELEPHONE CO.
THE SISKIYOU TELEPHONE COMPANY
THE VOLCANO TELEPHONE COMPANY

ON DECEMBER 24, 1996, NOTICE OF PROPOSED RULEMAKING ON ACCESS CHARGE ISSUES

Dated: January 29, 1997

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Attorneys for Commenting Parties

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Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
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Transport Rate Structure and Pricing	)	CC Docket No. 91-213

OPENING COMMENTS OF SMALL WESTERN LECS ON DECEMBER 24, 1996, NOTICE OF PROPOSED RULEMAKING ON ACCESS CHARGE ISSUES

Evans Telephone Company, Humboldt Telephone Company, Kerman Telephone Co., Oregon-Idaho Utilities, Inc., Pinnacles Telephone Co., The Ponderosa Telephone Co., The Siskiyou Telephone Company, and The Volcano Telephone Company (the Small Western LECs) respectfully file their Comments in response to the Notice of Proposed Rulemaking (NPRM) in the captioned docket, released on December 24, 1996.

The Small Western LECs are small independent local exchange carriers serving rural areas in the states of California, Nevada, Oregon, and Idaho. They are each the "carrier of last resort" providing service to residential and small business customers throughout their respective service territories, even those located in the most remote regions. They provide interstate access services under tariffs approved by the Commission and are directly interested in potential changes to interstate access charge methodology and procedures.

I. INTRODUCTION.

The NPRM directed its primary focus to issues affecting large LECS regulated under interstate price caps. As stated at paragraph 51 of the NPRM, price cap LECs account for more than 90% of the total nationwide access lines and interstate access charge revenues. In addition, paragraph 52 notes that many of the non-price cap LECs may be exempt from interconnection and unbundling requirements of the Telecommunications Act of 1996, which lessens the problem of unbundled network access serving as a possible surrogate method of interexchange access for long distance carriers.

The NPRM does propose some rules that would affect both small and large LECs, as outlined in paragraph 53, and these comments will initially address the subjects described in that paragraph. Section III of the comments will address two other issues raised in the NPRM that are also of relevance to small, rural LECs.

II. ISSUES NOTED IN THE NPRM AS AFFECTING ALL LECS.

The issues noted in the NPRM as directly affecting all LECs are the relationship between universal service support and the interstate revenue requirement, changes to the local transport rate structure, changes to the common line rate structure and possible revisions to the Part 69 access rules. This section of these comments will address each of those issues.

UNIVERSAL SERVICE SUPPORT AND ACCESS CHARGES

Paragraphs 242-246 of the NPRM discuss the issue of accounting for the potential "double recovery" of costs through the interstate universal support mechanism and interstate access charges. While this may be a subject that needs to be addressed in the case of larger carriers, it is not a problem for small LECs presently receiving interstate universal service funding. The existing universal service support system calculates support only after allowance for the interstate allocation of loop costs to access under the 25% gross allocator. The effect of the interstate USF calculation is to increase the percentage of loop costs allocated to the interstate jurisdiction beyond the 25% level. Applicable regulations further require that jurisdictionally intrastate costs be reduced by the amount of interstate USF being received.

Paragraph 246 of the NPRM posits a need to reduce interstate costs to reflect revenues that rate of return LECs may receive from any "new" universal service support mechanism "to the extent allocated" to the interstate jurisdiction. It is only speculation to suggest modifications to Part 69 to account for such a phenomenon when the potential revisions to the interstate USF system are still under discussion. As noted above, the present system limits USF payments to loop costs not included under the interstate gross allocator and makes the offsetting cost reduction to intrastate costs. Any new USF system should continue to offset intrastate costs, or there is no point to having it administered on an interstate level. The 25% gross allocator defines the loop costs that are to be included within the system of interstate access charges, and those costs should continue as interstate access costs.

TRANSPORT RATE CHANGES

These comments will not attempt to address the complexities inherent in the numerous alternatives for transport rate restructure reviewed at paragraphs 87-122 of the NPRM. The "correct" answer to the questions posed may well vary with the size of the carrier and its price cap or rate of return regulatory status. It is also difficult to answer these questions in the abstract, since the potential rate changes and cost recovery impacts of the alternative approaches have not been determined, even on a broad brush level.

What can be clearly stated for rate of return LECs is that they are recovering their jurisdictionally interstate actual transport costs, no more and no less, from the present pricing system. If the rate structure for recovering that interstate revenue requirement is to be changed, it must be changed to a system that continues to recover the actual, defined revenue requirement. If the actual costs of smaller carriers are analyzed, it is likely that the resulting system of local transport rates would include a larger component of mileage sensitivity in transport, since rural carriers tend to have higher per-mile transport costs. Resolution of this issue for rate of return carriers will require focus on their actual cost structures.

COMMON LINE RATE STRUCTURE

The 25% of loop costs currently allocated to the interstate access charge system should continue to be recovered from interstate access charges. The current mix of recovery of this revenue requirement from a combination of the SLC, CCLC and long-term support has been criticized, but it is a compromise that has worked. It is somewhat inconsistent for the NPRM to observe that common line costs "should" be recovered on through flat monthly rates and then to decline to consider any increase in the residential and single line business SLC. This is the same conflict of economics and politics which led to the existing compromise system.

This is another area in which the solution for price cap LECs may differ from rate of return LECs. The present level of interstate CCLC does not pose a real bypass threat in the rural areas served by most rate of return companies or constitute an unreasonable burden on interexchange carriers, which receive substantial benefit from the ubiquity of the rural network supported by the CCLC charges. If competitive pressures in urban areas require modifications to the common line rate structure for price cap LECs, the rate of return carriers should not also be required to change a system that works for them.

III. OTHER ISSUES

The Small Western LECs will also address two other areas of discussion in the NPRM, which are the potential use of proxy models for interstate access charge purposes and the appropriate relationship between originating and terminating access charges.

PROXY MODELS

The proxy model issue is raised indirectly in the NPRM, in the contest of discussing TSLRIC, TELRIC, and "forward looking" costs. In other Commission proceedings, where the models are being presented and evaluated, some parties have suggested that the models would furnish a superior method of determining interstate access charges.

The small Western LECs have participated in the Commission's universal service rulemaking proceeding and its consideration of proxy models for universal service funding purposes. The California companies have had additional experience in evaluating proxy models in California PUC proceedings at which they presented evidence on the discrepancies between the model outputs and actual service facilities and costs of small incumbent LECs. Following these evidentiary hearings, the California Commission reversed its earlier decision to apply proxies to small LECs and, instead, issued its decision excluding small LECs from the proxy modeling support system and basing small LEC support on actual costs.

Based on their first-hand experience with proxy models, the Small Western LECs strongly oppose any adaptation of the modeling process for use in connection with interstate access charges. Telephone calls are completed on actual networks, while proxy models present hypothetical costs. There is a potentially beneficial use of such models in calculating universal service support requirements for large, geographically-diversified LECs which do not have identified costs for their high cost areas. The models do not, however, reliably define forward looking or any other kind of costs for small, rural LECs, as the Commission's recent workshops on the models clearly demonstrated. Even more fundamentally, however, as rate of return regulated carriers, small LECs are governed by accounting and separations rules based on their actual costs. Proxy models offer no useful information on actual small LEC access costs.

TERMINATING ACCESS

The NPRM at paragraphs 271-281 discusses various suggestions for changing access pricing structure to reduce or eliminate access charges associated with terminating traffic. While the discussion is addressed only to regulation of price cap LECs, changes in this area might lead to similar changes for rate of return carriers at a future date. The Small Western LECs believe that changes to reduce or eliminate terminating access charges are not necessary or desirable.

The NPRM correctly observes that it is more difficult to bypass terminating access facilities as opposed to originating access facilities. This does not, however, logically lead to a decision to eliminate terminating access charges. Charges for terminating access fairly reflect the value to interexchange carriers of the ubiquity of the switched telecommunications network. Terminating access admittedly possesses a higher "bottleneck quotient", as suggested at paragraph 271, but the charges for access to this bottleneck are based on actual costs, just as the calls are completed over the actual facilities that generate those actual costs.

Elimination of terminating access charges in favor of higher originating access charges would artificially increase bypass incentives on originating traffic and would provide a "free ride" to interexchange carriers over the facilities of the LECs. A prohibition against charging for mandated use of access facilities would also be of dubious legality, since it would amount to a regulatory "taking" of property without just compensation.

This is a particularly important area for small, rate of return LECs, since access charges constitute a relatively large part of their revenues. Small LECs do not possess long distance networks, and the only rates available to them for recovery of their actual costs of operation are local rates and access charges. Elimination of terminating access charges would take away an important source of cost recovery and would lead to increase in the amount of revenue requirement that would need to be met from local rates or "outboard" revenue sources and funds. Eliminating or reducing a rate does not reduce costs; it only creates new issues of cost recovery.

IV. CONCLUSION.

The Commission's NPRM raises issues of fundamental importance to small LECs under rate of return regulation. In evaluating the various alternatives and suggestions for change, the Commission should keep in mind that the existing system of interstate access charges works well, and changes should only be made where a compelling reason for change can be clearly shown. Further, and particularly in the case of small LECs under rate of return regulation, access charges must continue to recover the actual costs of providing the access facilities that are a critical component of the nation's telecommunications infrastructure.

Dated: January 29, 1997

Respectfully submitted,

EVANS TELEPHONE COMPANY
HUMBOLDT TELEPHONE COMPANY
KERMAN TELEPHONE CO.
OREGON-IDAHO UTILITIES, INC.
PINNACLES TELEPHONE CO.
THE PONDEROSA TELEPHONE CO.
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By Their Attorneys

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